



Washington State Auditor's Office

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Financial Statements and Federal Single Audit Report

Wenatchee School District No. 246

Chelan County

For the period September 1, 2013 through August 31, 2014

Published May 26, 2015

Report No. 1014338





Washington State Auditor

May 26, 2015

Board of Directors
Wenatchee School District No. 246
Wenatchee, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Wenatchee School District No. 246's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Wenatchee School District No. 246 Chelan County September 1, 2013 through August 31, 2014

The results of our audit of Wenatchee School District No. 246 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.553	Child Nutrition Cluster - School Breakfast Program
10.555	Child Nutrition Cluster - National School Lunch Program
10.559	Child Nutrition Cluster – Summer Food Service Program for Children
84.027	Special Education Cluster (IDEA) - Special Education - Grants to States (IDEA, Part B)
84.173	Special Education Cluster (IDEA) - Special Education - Preschool Grants (IDEA Preschool)
84.287	Twenty-First Century Community Learning Centers
84.334	Gaining Early Awareness and Readiness Undergraduate Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

**SCHEDULE OF FEDERAL AUDIT FINDINGS AND
QUESTIONED COSTS**

**Wenatchee School District No. 246
Chelan County
September 1, 2013 through August 31, 2014**

2014-001 The District did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title: 10.553 School Breakfast Program
10.555 National School Lunch Program
10.559 Summer Food Service Program for Children

Federal Grantor Name: U.S. Department of Agriculture

Federal Award/Contract Number: NA

Pass-through Entity Name: Office of the Superintendent of Public Instruction

Pass-through Award/Contract Number: NA

Questioned Cost Amount: \$0

Description of Condition

During fiscal year 2014, the District received \$2,364,606 in School Breakfast and National School Lunch Program funds. The objective of these programs is to provide free and reduced-price meals for low-income students.

Federal requirements prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more and all subawards, the District must ensure the vendor or subrecipient is not suspended or debarred. The District can obtain a written certification from the vendor or insert a clause into the contract where the vendor states it is not suspended or debarred. Alternatively, the District may review the federal Excluded Parties List issued by the U.S. General Service Administration. The District must meet these requirements prior to entering into contracts with vendors or subrecipients.

We reported a finding in the prior audit related to the District's noncompliance with suspension and debarment requirements. After our audit report was issued, the District was able to implement procedures to comply with suspension and

debarment requirements. However, the District was unable to implement the changes in time to comply with the federal requirements for the 2014 fiscal year.

The District did not have internal controls in place to ensure vendors were not suspended or debarred from participating in federal programs before entering into the contracts. We reviewed four vendor contracts and found the District paid \$339,549 of its grant funding for goods without verifying the federal suspension and debarment status of these vendors.

We consider this internal control deficiency to be a material weakness.

Cause of Condition

Suspension and debarment requirements were brought to the attention of the District in the previous audit. Although it was working towards compliance, it was unable to fully complete the process in time to comply for purchases made during the 2013-2014 school year.

Effect of Condition and Questioned Costs

Without proper controls, the District increases the risk of awarding funds to vendors and subrecipients that are suspended or debarred from participating in federal programs. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency. Failure to comply with federal requirements may jeopardize the District's eligibility for future federal assistance. We were able to verify that the vendors were not suspended or debarred; therefore, we will not question these costs.

Recommendation

We recommend the District establish internal controls to verify suspension and debarment status of all vendors paid with federal funds prior to entering into contracts.

District's Response

Already established additional internal controls during prior audit.

Auditor's Remarks

As noted above, Suspension and debarment requirements were brought to the attention of the District in the previous audit. Although it was working towards compliance, it was unable to fully complete the process in time to comply for purchases made during the 2013-2014 school year. We appreciate the steps the County is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of states, Local Governments, and Non-Profit Organizations*, Section .300 – Auditee Responsibilities, states in part:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows: ...

Deficiency in internal control over compliance. A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A

deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material weakness in internal control over compliance.

A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur. ...

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Title 2, Code of Federal Regulations, Section 180.220, states in part, Are any procurement contracts included as covered transactions?

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a non-procurement transaction that is covered under §180.210, and the amount of the contract is expected to equal or exceed \$25,000...

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS;
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

STATUS OF PRIOR FEDERAL AUDIT FINDINGS

**Wenatchee School District No. 246
Chelan County
September 1, 2013 through August 31, 2014**

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Wenatchee School District No. 246. The State Auditor’s Office has reviewed the status as presented by the District.

Audit Period: September 1, 2012 – August 21, 2013	Report Ref. No: 1011914	Finding Ref. No: 1	CFDA Number(s): 10.555/553
Federal Program Name and Granting Agency: National School Lunch Program/School Breakfast Program – U.S. Department of Agriculture		Pass-Through Agency Name: Office of the Superintendent of Public Instruction	
Finding Caption: The District did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.			
Background: During fiscal year 2013, the District received \$2,280,464 in School Breakfast and National School Lunch Program funds. The objective of these programs is to provide free and reduced-price meals for low-income students. We reviewed three vendor contracts and found the District paid \$242,021 of its grant funding for goods without verifying the federal suspension and debarment status of these vendors. The determination of staff responsible for the suspension and debarment requirements was not adequately communicated between the District’s food service and business departments.			
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>Suspension and debarment requirements were brought to the attention of the District in the previous audit. Although it was working towards compliance, it was unable to complete the process in time to comply for purchases made during the 2013-2014 school year.</i>			

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Wenatchee School District No. 246
Chelan County
September 1, 2013 through August 31, 2014**

Board of Directors
Wenatchee School District No. 246
Wenatchee, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Wenatchee School District No. 246, Chelan County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 15, 2015. As discussed in Note 1 to the financial statements, during the year ended August 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency,

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Jan M. Jutte". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 15, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Wenatchee School District No. 246
Chelan County
September 1, 2013 through August 31, 2014**

Board of Directors
Wenatchee School District No. 246
Wenatchee, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of Wenatchee School District No. 246, Chelan County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on

a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

District's Response to Findings

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

May 15, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Wenatchee School District No. 246 Chelan County September 1, 2013 through August 31, 2014

Board of Directors
Wenatchee School District No. 246
Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Wenatchee School District No. 246, Chelan County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 21.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the Accounting Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The difference in these accounting practices is also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wenatchee School District No. 246, as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions on the Governmental Funds Based on U.S. GAAP

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Project and Transportation Vehicle funds as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis Regarding Implementation of New Accounting Standard

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedules of Long-Term Liabilities are also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 15, 2015

FINANCIAL SECTION

**Wenatchee School District No. 246
Chelan County
September 1, 2013 through August 31, 2014**

FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2014
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
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SUPPLEMENTARY AND OTHER INFORMATION

Schedules of Long-Term Liabilities – 2014
Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

Wenatchee School District No. 246
Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
ASSETS:							
Cash and Cash Equivalents	2,410,848.25	87,435.17	525.10	0.00	0.44	0.00	2,498,808.96
Minus Warrants Outstanding	-2,377,609.81	-7,780.42	0.00	-82,326.74	0.00	0.00	-2,467,716.97
Taxes Receivable	5,330,641.13		1,147,023.48	0.00	0.00	0.00	6,477,664.61
Due From Other Funds	0.00	0.00	0.00	19,062.49	0.00	0.00	19,062.49
Due From Other Governmental Units	488,120.98	0.00	0.00	1,927,421.75	0.00	0.00	2,415,542.73
Accounts Receivable	65,881.15	0.00	0.00	0.00	0.00	0.00	65,881.15
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	24,246.22	0.00					24,246.22
Prepaid Items	5,222.00	0.00		0.00	0.00	0.00	5,222.00
Investments	14,575,000.00	480,100.00	3,799,000.00	66,440,578.21	329,125.00	0.00	85,623,803.21
Investments/Cash With Trustee	219,742.81		0.00	0.00	0.00	0.00	219,742.81
Investments-Deferred Compensation	0.00			0.00			0.00
Self-Insurance Security Deposit	0.00						0.00
TOTAL ASSETS	20,742,092.73	559,754.75	4,946,548.58	68,304,735.71	329,125.44	0.00	94,882,257.21
LIABILITIES:							
Accounts Payable	1,489,434.00	60,486.96	0.00	3,064,685.95	0.00	0.00	4,614,606.91
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	1,847,862.73	0.00		0.00			1,847,862.73
Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00
Payroll Deductions and Taxes Payable	204,076.92	0.00		0.00			204,076.92
Due To Other Governmental Units	12,637.68	1,702.66		136.04	0.00	0.00	14,476.38
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	0.00						0.00
Due To Other Funds	19,062.49	0.00	0.00	0.00	0.00	0.00	19,062.49

The accompanying notes are an integral part of this financial statement.

Wenatchee School District No. 246
Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
LIABILITIES:							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
TOTAL LIABILITIES	3,573,073.82	62,189.62	0.00	3,064,821.99	0.00	0.00	6,700,085.43
DEFERRED INFLOWS OF RESOURCES:							
Unavailable Revenue	63,951.50	80,142.01	0.00	0.00	0.00	0.00	144,093.51
Unavailable Revenue - Taxes Receivable	5,330,641.13		1,147,023.48	0.00	0.00		6,477,664.61
TOTAL DEFERRED INFLOWS OF RESOURCES	5,394,592.63	80,142.01	1,147,023.48	0.00	0.00	0.00	6,621,758.12
FUND BALANCE:							
Nonspendable Fund Balance	29,468.22	0.00	0.00	0.00	0.00	0.00	29,468.22
Restricted Fund Balance	1,268,901.00	417,423.12	3,799,525.10	0.00	329,125.44	0.00	5,814,974.66
Committed Fund Balance	3,934,771.00	0.00	0.00	0.00	0.00	0.00	3,934,771.00
Assigned Fund Balance	2,981,742.81	0.00	0.00	65,239,913.72	0.00	0.00	68,221,656.53
Unassigned Fund Balance	3,559,543.25	0.00	0.00	0.00	0.00	0.00	3,559,543.25
TOTAL FUND BALANCE	11,774,426.28	417,423.12	3,799,525.10	65,239,913.72	329,125.44	0.00	81,560,413.66
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	20,742,092.73	559,754.75	4,946,548.58	68,304,735.71	329,125.44	0.00	94,882,257.21

The accompanying notes are an integral part of this financial statement.

Wenatchee School District No. 246

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
REVENUES:							
Local	12,571,297.86	858,291.64	2,390,371.98	176,022.99	170.92		15,996,155.39
State	57,035,627.30	0.00	0.00	5,516,902.79	219,419.53		62,771,949.62
Federal	8,255,972.72	0.00	0.00	0.00	0.00		8,255,972.72
Federal Stimulus	0.00						0.00
Other	163,734.75			0.00	0.00	0.00	163,734.75
TOTAL REVENUES	78,026,632.63	858,291.64	2,390,371.98	5,692,925.78	219,590.45	0.00	87,187,812.48
EXPENDITURES:							
CURRENT:							
Regular Instruction	41,683,794.86						41,683,794.86
Federal Stimulus	0.00						0.00
Special Education	7,882,966.75						7,882,966.75
Vocational Education	2,326,239.62						2,326,239.62
Skill Center	1,382,139.07						1,382,139.07
Compensatory Programs	7,397,661.66						7,397,661.66
Other Instructional Programs	1,353,010.26						1,353,010.26
Community Services	711,748.33						711,748.33
Support Services	15,713,449.24						15,713,449.24
Student Activities/Other		872,444.75				0.00	872,444.75
CAPITAL OUTLAY:							
Sites				825,561.45			825,561.45
Building				5,684,267.37			5,684,267.37
Equipment				28,318.78			28,318.78
Instructional Technology				0.00		0.00	0.00
Energy				1,721,280.48			1,721,280.48
Transportation Equipment					142,412.31		142,412.31
Sales and Lease						0.00	0.00
Other	271,218.36						271,218.36
DEBT SERVICE:							
Principal	0.00		1,665,000.00	0.00	0.00		1,665,000.00
Interest and Other Charges	0.00		772,387.02	0.00	0.00		772,387.02
Bond/Levy Issuance				51,038.50	0.00		51,038.50
TOTAL EXPENDITURES	78,722,228.15	872,444.75	2,437,387.02	8,310,466.58	142,412.31	0.00	90,484,938.81

The accompanying notes are an integral part of this financial statement.

Wenatchee School District No. 246

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
DEBT SERVICE:							
REVENUES OVER (UNDER) EXPENDITURES	-695,595.52	-14,153.11	-47,015.04	-2,617,540.80	77,178.14	0.00	-3,297,126.33
OTHER FINANCING SOURCES (USES):							
Bond Sales & Refunding Bond Sales	0.00		1,294,678.55	66,527,650.00	0.00		67,822,328.55
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	946,168.00	0.00		946,168.00
Transfers Out (GL 536)	-946,168.00		0.00	0.00	0.00	0.00	-946,168.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	3,051.00		3,051.00
TOTAL OTHER FINANCING SOURCES (USES)	-946,168.00		1,294,678.55	67,473,818.00	3,051.00	0.00	67,825,379.55
EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	-1,641,763.52	-14,153.11	1,247,663.51	64,856,277.20	80,229.14	0.00	64,528,253.22
BEGINNING TOTAL FUND BALANCE	13,169,634.74	431,576.23	2,551,861.59	383,636.52	248,896.30	0.00	16,785,605.38
Prior Year(s) Corrections or Restatements	246,555.06	0.00	0.00	0.00	0.00	0.00	246,555.06
ENDING TOTAL FUND BALANCE	11,774,426.28	417,423.12	3,799,525.10	65,239,913.72	329,125.44	0.00	81,560,413.66

The accompanying notes are an integral part of this financial statement.

Wenatchee School District
Notes to Financial Statements
September 1, 2013 through August 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Wenatchee School District (District) is a municipal corporation organized pursuant to Title 28A of the *Revised Code of Washington* (RCW) for the purposes of providing public school services to students in grades K–12. Oversight responsibility for the District's operations is vested with the independently elected board of directors. Management of the District is appointed by and is accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1), and RCW 28A.505.020. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- (1) Districtwide statements, as defined in GAAP are not presented.
- (2) A Schedule of Long-Term Liabilities is presented as supplementary information.
- (3) Supplementary information required by GAAP is not presented.

FUND ACCOUNTING

Financial transactions of the District are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures as appropriate. All funds are considered major funds. The various funds in the report are grouped into governmental funds as follows:

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all expendable financial resources, except for those that are required to be accounted for in another fund. In keeping with the principle of as few funds as are necessary, activities such as food services, maintenance, data processing, printing, and student transportation are included in the General Fund.

Capital Projects Funds

These funds account for financial resources that are to be used for the construction or acquisition of major capital assets. There are two funds that are considered to be of the capital projects fund type: the Capital Projects Fund and the Transportation Vehicle Fund.

Capital Projects Fund. This fund is used to account for resources set aside for the acquisition and construction of major capital assets such as land and buildings.

Transportation Vehicle Fund. This fund is used to account for the purchase, major repair, rebuilding, and debt service expenditures that relate to pupil transportation equipment.

Debt Service Fund

This fund is used to account for the accumulation of resources for and the payment of matured general long-term debt principal and interest.

Special Revenue Fund

In Washington State, the only allowable special revenue fund for school districts is the Associated Student Body (ASB) Fund. This fund is accounted for in the District's financial statements as the financial resources legally belong to the District. As a special revenue fund, amounts within the ASB Fund may only be used for those purposes that relate to the operation of the Associated Student Body of the District.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are recorded when due. Purchases of capital assets are expensed during the year of acquisition. For federal grants, the recognition of expenditures is dependent on the obligation date. (Obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received).

BUDGETS

Chapter 28A.505 RCW and Chapter 392-123 *Washington Administrative Code* (WAC) mandate school district budget policies and procedures. The board adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations lapse at the end of the fiscal period.

Budgets are adopted on the same modified accrual basis as used for financial reporting. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the District enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The District receives state funding for specific categorical education-related programs. Amounts that are received for these programs that are not used in the current fiscal year may be carried forward into the subsequent fiscal year, where they may be used only for the same purpose as they were originally received. When the District has such carryover, those funds are expended before any amounts received in the current year are expended.

Additionally, the District has other restrictions placed on its financial resources. When expenditures are recorded for purposes for which a restriction or commitment of fund balance is available, those funds that are restricted or committed to that purpose are considered first before any unrestricted or unassigned amount are expended.

The government's fund balance classifications policies and procedures.

The District classifies ending fund balance for its governmental funds into five categories.

Nonspendable Fund Balance. The amounts reported as Nonspendable are resources of the District that are not in spendable format. They are either non-liquid resources such as inventory or prepaid items, or the resources are legally or contractually required to be maintained intact.

Restricted Fund Balance. Amounts that are reported as Restricted are those resources of the District that have had a legal restriction placed on their use either from statute, WAC, or other legal requirements that are beyond the control of the board of directors. Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

Committed Fund Balance. Amounts that are reported as Committed are those resources of the District that have had a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

Assigned Fund Balance. In the General Fund, amounts that are reported as Assigned are those resources that the District has set aside for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies. Assignments reduce the amount reported as Unassigned Fund Balance, but may not reduce that balance below zero.

In other governmental funds, Assigned fund balance represents a positive ending spendable fund balance once all restrictions and commitments are considered. These resources are only available for expenditure in that fund and may not be used in any other fund without formal action by the District's board of directors and as allowed by statute.

The Superintendent and Chief Financial Officer are the only persons who have the authority to create Assignments of fund balance.

Unassigned Fund Balance. In the General Fund, amounts that are reported as Unassigned are those net spendable resources of the District that are not otherwise Restricted, Committed, or Assigned, and may be used for any purpose within the General Fund.

In other governmental funds, Unassigned fund balance represents a deficit ending spendable fund balance once all restrictions and commitments are considered.

A negative Unassigned fund balance means that the legal restrictions and formal commitments of the District exceed its currently available resources.

CASH AND CASH EQUIVALENTS

All of the District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

INVENTORY

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Nonspendable. Such reserves for inventory indicate that a portion of net current assets is set aside to replace or increase the inventory. USDA commodity inventory

consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

ACCOUNTING AND REPORTING CHANGES FOR 2013-2014

Effective for the 2013-2014 school year, the district implemented provisions of *GASB Statement No. 65 Items Previously Reported as Assets and Liabilities*. As a result, deferred property taxes were reclassified from liabilities to deferred inflows of resources.

NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

The Chelan County Treasurer is the *ex officio* treasurer for the District and holds all accounts of the District. The District directs the County Treasurer to invest those financial resources of the District that the District has determined are not needed to meet the current financial obligations of the District.

All of the District’s investments during the year and at year end were insured or registered and held by the District or its agent in the District’s name.

The district’s investments as of August 31, 2014 are as follows:

	Number of Securities	Carrying Amount	Market Value
Certificates of Deposit or Other Time Deposits			
Repurchase Agreements			
Bankers’ Acceptance			
Obligations of the U.S. Government or Its Subsidiary Corporations			
Investments Held by Broker-Dealers Under Reverse Repurchase Agreements: U.S. Government Securities U.S. Instrumentality Securities			
State Treasurer’s Investment Pool			
County Treasurer’s Investment Pool	1*	\$85,623,803	\$85,623,803
Total Investments		\$85,623,803	\$85,623,803

**Combined in the name of the Chelan County Treasurer*

NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES

LITIGATION

The district has no known legal obligations that would materially impact the financial position of the District.

NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

There were no events after the balance sheet date that would have a material impact on the next or future fiscal years.

NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS

GENERAL INFORMATION

Substantially all District full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS: Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS), and School Employees' Retirement System (SERS). Participation in the programs was as follows:

Membership by retirement system program as of June 30, 2013:

Program	Active Members	Inactive Vested Members	Retired Members
TRS	65,935	9,823	44,220
PERS	150,706	31,047	85,328
SERS	52,295	11,588	9,079

Data is as of last actuarial valuation date of June 30, 2013

Certificated public employees are members of TRS. Noncertificated public employees are members of PERS (if Plan 1) or SERS.

Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. Plan 1 members are eligible to retire with full benefits after five years of credited service and attainment of age 60, after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

Plan 2 under the TRS or SERS programs are defined benefit pension plans whose members joined on or after October 1, 1977 but before June 30, 1996 or August 31, 2000, for TRS or SERS programs, respectively. Members of TRS and SERS are eligible to retire with full benefits after five years of credited service and attainment of age 65, after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65, or 30 years of credited service and receive either a reduced benefit or stricter return-to-work rules.

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits at age 65, or they may retire at age 55 with at least ten service years with a reduced benefit amount, or they may retire at age 55 with at least 30 service years and receive either a reduced benefit or stricter-return-to-work rules.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the highest average salary during any two consecutive years. For Plan 2 and Plan 3 TRS and SERS members, it is the highest average salary during any five consecutive years.

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by 2 percent per year of service, capped at 60 percent, with a cost-of-living adjustment. For Plan 2 TRS and SERS members, it is the AFC multiplied by 2 percent per year of service with provision for a cost-of-living adjustment. For the defined benefit portion of Plan 3 TRS and SERS it is the AFC multiplied by 1 percent per year of service with a cost-of-living adjustment.

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2 and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the

Legislature. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. The employer rate is the same for all plans in a system. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32 and 41.35 RCW for PERS, TRS and SERS respectively.

The District contribution represents its full liability under both systems, except that future rates may be adjusted to meet the system needs.

CONTRIBUTIONS

Employee contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	6.00%	Plan 1 PERS	6.00%
Plan 2 TRS	4.96%	Plan 2 SERS	4.64%
Plan 3 TRS and SERS	5.00%(minimum), 15.00% (maximum)		

For Plan 3 TRS and SERS, rates adjusted based upon age may be chosen. The optional rates range begins at 5 percent and increase to a maximum of 15 percent.

Employer contribution rates effective September 1, 2013 through August 31, 2014:

Plan 1 TRS	10.39%	Plan 1 PERS	9.21%
Plan 2 TRS	10.39%	Plan 2 SERS	9.82%
Plan 3 TRS	10.39%	Plan 3 SERS	9.82%

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars (Participant information for all plans is as of August 31):

<u>Plan</u>	<u>FY 2013-14</u>	<u>FY 2012-13</u>	<u>FY 2011-12</u>
Plan 1 TRS	\$ 152,431	\$ 151,331	\$ 177,774
Plan 2 TRS	\$ 500,222	\$ 347,318	\$ 308,130
Plan 3 TRS	\$2,825,456	\$2,088,801	\$1,956,295
Plan 1 PERS	\$ 10,289	\$ 11,524	\$ 12,267
Plan 2 SERS	\$ 492,546	\$ 371,748	\$ 353,345
Plan 3 SERS	\$ 610,026	\$ 452,698	\$ 421,717

Historical trend information showing TRS, PERS and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's June 30, 2014 comprehensive annual financial report (CAFR). Refer to this report for detailed trend information. It is available from:

State of Washington
 Office of Financial Management
 300 Insurance Building
 PO Box 43113
 Olympia, WA 98504-3113

NOTE 6: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS

The State, through the Health Care Authority (HCA), administers an agent multi-employer Other Post-Employment Benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee

participation and coverage, including establishment of eligibility criteria for both active and retire employees. Programs include medical, dental, life insurance and long-term disability insurance.

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 57 of the state's K-12 school districts and educational service districts (ESDs), and 206 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 247 K-12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2013-14, the District was required to pay the HCA \$64.40 per month per full-time equivalent employee to support the program, for a total payment of \$670,716.21. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, or the fee paid to the Health Care Authority. The District does not determine its Annual Required Contribution nor the Net Other Post-Employment Benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements. This is a departure from GAAP.

NOTE 7: COMMITMENTS UNDER NONCAPITALIZED (OPERATING) LEASES

For the fiscal year ended August 31, 2014, the District had incurred additional long-term debt as follows:

Wenatchee School District has two operating leases:

Ricoh Corporation – A 60-month lease beginning August 2009 effective until August 2014. Lease provides copying equipment in the form of 29 machines located in 21 school district facilities. Lease provides for equipment repairs, adjustments, supplies, monthly meter reads and staff training on equipment operations. A fixed base cost of \$ 9,653.58 per month, plus sales tax is charged, and a variable cost per copy ranging from .0040 - .0650 plus sales tax is charged.

Ricoh Corporation – A 60-month lease beginning September 2013 effective until September 2018. Lease provides copying equipment in the form of 11 machines located in 11 school district facilities. Lease provides for equipment repairs, adjustments, supplies, monthly meter reads and staff training on equipment operations. A fixed base cost of \$ 2,373.07 per month, plus sales tax is charged, and a variable cost per copy ranging from .0080 - .0514 plus sales tax is charged.

NOTE 8: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS, INCLUDING ENCUMBRANCES

Construction in progress is composed of:

Project	Project Authorization Amount	Expended as of 8/31/2014	Additional State Funds Committed
Skills Center Major Works #K19-4490	\$ 9,500,000	\$ 5,337,840	\$ 4,162,160
WSD 2014 Bond MissionView Park Lot	\$ 650,000	\$ 747,443	\$ 0
WSD 2014 Bond Lincoln Elem	\$ 23,700,000	\$ 248,533	\$ 0
WSD 2014 Bond Washington Elem	\$ 29,500,000	\$ 396,267	\$ 0
WSD 2014 Bond Early Childhood	\$ 6,100,000	\$ 94,623	\$ 0
WSD 2014 Bond Pioneer Gym	\$ 6,550,000	\$ 171,987	\$ 0

ENCUMBRANCES

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. Encumbrances in the amount of \$348,997 within the General Fund, \$10,690,999 within the Capital Projects Fund and \$8,315 within the ASB Fund were re-encumbered on September 1, 2014.

NOTE 9: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS

The district's capital assets are insured in the amount of \$266,443,629 for fiscal year 2014. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

NOTE 10: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES

LONG-TERM DEBT

Bonds payable at August 31, 2014, are comprised of the following issues:

<u>Issue Name</u>	<u>Amount Authorized</u>	<u>Final Maturity</u>	<u>Interest Rate(s)</u>	<u>Amount Outstanding</u>
<u>General Obligation Bonds</u>				
2010-UTGO	\$ 26,700,000	12/21	2.00-5.00%	\$ 17,830,000
2014-UTGO	\$ 59,450,000	12/33	3.00-5.00%	\$ 59,450,000
Total General Obligation Bonds				<u>\$ 77,280,000</u>

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2014:

Years Ending August 31	Principal	Coupon	Interest	Total
2010 UTGO Bond Issue				
2014	\$1,765,000.00	* see note	\$745,700.00	\$2,510,700.00
2015	\$1,880,000.00	* see note	\$691,250.00	\$2,571,250.00
2016	\$2,000,000.00	* see note	\$617,800.00	\$2,617,800.00
2017	\$2,135,000.00	4.00%	\$540,900.00	\$2,675,900.04
2018	\$2,275,000.00	4.00%	\$455,500.00	\$2,730,500.04
2019	\$2,425,000.00	4.00%	\$364,500.00	\$2,789,500.04
2020	\$2,580,000.00	5.00%	\$267,500.00	\$2,847,500.05
2021	\$2,770,000.00	5.00%	\$138,500.00	\$2,908,500.05
Total:	\$17,830,000.00		\$3,821,650.00	\$21,651,650.22

*2014 has a tri-furcated maturity. \$200,000 par amount at 2.50%, \$1,065,000 par amount at 3.00% and \$500,000 par amount at 3.50%

*2015 has a bi-furcated maturity. \$175,000 par amount at 3.00% and \$1,705,000 par amount at 4.00%

*2016 has a bi-furcated maturity. \$310,000 par amount at 3.00% and \$1,690,000 par amount at 4.00%

Years Ending August 31	Principal	Coupon	Interest	Total
2014 UTGO Bond Issue				
2014			\$1,504,847.88	\$1,504,847.88
2015			\$2,836,362.50	\$2,836,362.50
2016			\$2,836,362.50	\$2,836,362.50
2017			\$2,836,362.50	\$2,836,362.50
2018	\$55,000.00	3.00%	\$2,836,362.50	\$2,891,362.53
2019	\$110,000.00	3.00%	\$2,834,712.50	\$2,944,712.53
2020	\$170,000.00	3.00%	\$2,831,412.50	\$3,001,412.53
2021	\$230,000.00	3.00%	\$2,826,312.50	\$3,056,312.53
2022	\$3,265,000.00	5.00%	\$2,819,412.50	\$6,084,412.55
2023	\$3,550,000.00	5.00%	\$2,656,162.50	\$6,206,162.55
2024	\$3,850,000.00	5.00%	\$2,478,662.50	\$6,328,662.55
2025	\$4,170,000.00	4.00%	\$2,286,162.50	\$6,456,162.54
2026	\$4,465,000.00	4.25%	\$2,119,362.50	\$6,584,362.54
2027	\$4,790,000.00	4.50%	\$1,929,600.00	\$6,719,600.05
2028	\$5,140,000.00	4.50%	\$1,714,050.00	\$6,854,050.05
2029	\$5,505,000.00	5.00%	\$1,482,750.00	\$6,987,750.05
2030	\$5,920,000.00	5.00%	\$1,207,500.00	\$7,127,500.05
2031	\$6,360,000.00	5.00%	\$911,500.00	\$7,271,500.05
2032	\$6,820,000.00	5.00%	\$593,500.00	\$7,413,500.05
2033	\$5,050,000.00	5.00%	\$252,500.00	\$5,302,500.05
Total:	\$59,450,000.00		\$41,793,897.88	\$101,243,898.57

Grand Total:	\$77,280,000.00		\$45,615,547.88	\$122,895,548.79
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At August 31, 2014 the district had \$3,799,525 available in the Debt Service Fund to service the general obligation bonds.

NOTE 11: ENTITY RISK MANAGEMENT ACTIVITIES

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

PROPERTY AND LIABILITY INSURANCE

The Wenatchee School District is a member of the Schools Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure or hire contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1995, when 7 mid-sized school districts in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently, the SIAW program has 37 member districts.

The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Act Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The program provides the following forms of group purchased insurance coverage for its members: Property, Earthquake, Liability, Automotive Liability, Equipment Breakdown, Crime, Employee Benefits and Wrongful Act Liability.

The program acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence of \$100,000. Members are responsible for \$2,500 deductible for each claim, while the program is responsible for the \$100,000 self insured retention. Insurance carriers cover insured losses over \$102,500 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 self insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$3,400,000, which it fully funds in its annual budget.

Property insurance is subject to a per-occurrence self insured retention of \$250,000. Members are responsible for a \$10,000 deductible amount for each claim. The program is responsible for the remaining \$250,000 self insured retention. Equipment Breakdown insurance is subject to a pre-occurrence deductible of \$10,000. Members are responsible for the deductible amount of each claim.

Members contract to remain in the program for one year and must give notice before December 31 to terminate participation the following September 1. Renewal of the Interlocal Agreement occurs automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The program is fully funded by its member participants. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2014 were \$2,956,785.70.

A Board of Directors of 8 members is selected by the membership from the east and west side of the state and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Canfield to perform day-to-day administration of the program. This program has no employees.

WORKERS COMPENSATION

Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint self-insuring to the same extent that they may individually self-insure. Separate agreements to form a workers' compensation pool were made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The North Central Washington Workers' Compensation Pool was formed on April 1, 1984, when school districts and North Central Educational Service District (NCESD) in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses. 29 school districts and the NCESD have joined the workers' compensation pool.

This pool is operated for the Wenatchee School District's benefit in lieu of the district having to make monthly premium payments to the state of Washington for industrial insurance. Membership automatically renews each year. Even after termination, members are still responsible for contributions for unresolved claims occurring during a period when the district was a member of the pool.

The pool is governed by a board of directors, which is comprised of one designated representative from each participating member. An executive committee is elected for conducting the business affairs of each pool.

Each member's contribution to the pool is determined by a rate-making formula based on claims cost and other expenses paid. In fiscal year ending August 31, 2014, Wenatchee School District made payments totaling \$724,237.66 to the industrial insurance pool.

NOTE 12: PROPERTY TAXES

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due on October 31 are recorded as deferred revenue.

NOTE 13: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The District joined the association on February 28, 1977, and has remained in the joint venture ever since. The District's current equity of \$57,216.27 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the District compared to all other districts applied against paid administrative fees. The District may withdraw from the joint venture and will receive its equity in 10 annual allocations of merchandise or 15 annual payments.

NOTE 14: FUND BALANCE CLASSIFICATION DETAILS

The District’s financial statements include the following amounts presented in the aggregate.

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	\$ 29,468				
Restricted Fund Balance					
Carryover of Restricted Revenues	\$ 657,081				
Debt Service					
Arbitrage Rebate					
Uninsured Risks					
Other Items	\$ 611,820	\$ 417,423		\$3,799,525	
Committed Fund Balance					
Minimum Fund Balance Policy	\$3,934,771				
Other Commitments					
Assigned Fund Balance					
Contingencies					
Other Capital Projects	\$2,210,000				
Other Purposes	\$ 771,743				
Fund Purposes			\$65,239,914		\$ 329,125
Unassigned Fund Balance	\$3,559,543				

The Board of Directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the District. The policy is that the District shall maintain 5% of general fund expenditures. Portions of fund balance that are set aside for the purpose of meeting this policy are recorded on the financial statements as part of Committed Fund Balance.

NOTE 15: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS – BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS

457 PLAN – DEFERRED COMPENSATION PLAN

District employees have the option of participating in a deferred compensation plan as defined in Section 457 of the Internal Revenue Code that is administered by the state deferred compensation plan, or the District.

403(B) PLAN – TAX SHELTERED ANNUITY (TSA)

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under the elective deferrals employee contribution process.

The District complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers and various requirements. The plan is administered by a third party administrator. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

NOTE 16: TERMINATION BENEFITS

COMPENSATED ABSENCES

Employees earn sick leave at a rate of 12 days per year up to a maximum of one contract year.

Under the provisions of RCW 28A.400.210, sick leave accumulated by District employees is reimbursed at death or retirement at the rate of 1 day for each 4 days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. For buyout purposes, employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the vesting method.

Vacation pay, including benefits, that are expected to be liquidated with expendable available financial resources are reported as expenditures and a fund liability of the governmental fund that will pay it.

No unrecorded liability exists for other employee benefits.

NOTE 17: OTHER DISCLOSURES

UNEMPLOYMENT

The District is a member of the North Central Unemployment Cooperative with the North Central ESD. Funds held at the ESD are reported as assets in the District's Annual Financial Statement.

SKILLS CENTER CORE CAMPUS

The District is the host district for the Wenatchee Valley Technical Skills Center, a regional program designed to provide career and technical education opportunities to students in participating districts. The purpose of a Skills Center is to enhance the career and technical education course offerings among districts by avoiding unnecessary duplication of courses.

The Wenatchee Valley Technical Skills Center was created through an agreement of 10 member districts. The Skills Center is governed by an Administrative Council, comprised of the superintendents, or their appointed representatives, of all member districts plus leaders from the business and industry who are representative of the established business enterprises in the member districts. The Skills Center administration is handled through a director, employed by the District.

As host district, the District has the following responsibilities:

1. Employ staff of the Skills Center.
2. Act as fiscal agent for the Skills Center and maintain separate accounts and fund balances for each fund.
3. Review and adopt the Skills Center budget as part of the District's overall budget.
4. Provide such services as may be mutually agreed upon by the District and the Skills Center.

SOURCES OF FUNDING

The Skills Center is primarily funded by state apportionment, based on the number of students who attend the Sills Center. Other sources of income include federal grants from the Carl D. Perkins program, tuition and fees, and sale of goods and services.

CAPITAL IMPROVEMENTS

The Skills Center has ongoing construction projects beginning in 2010. These projects are funded by state grant funds from the State of Washington.

UNSPENT FUNDS

Any funds remaining at the end of the year from Skills Center operations are recorded as a restriction of the District's General Fund balance, and are to be used for financing future operations of the Skills Center. Member districts do not have claim to any unspent funds of the Skills Center.

The following school districts are members of the Skills Center: Cascade, Cashmere, Eastmont, Entiat, Lake Chelan, Manson, Moses Lake, Pateros, Quincy and Waterville.

In addition, the Moses Lake School District operates a branch campus of the Wenatchee Valley Technical Skills Center. As a branch campus, the district is allowed to claim its own students and receive direct Skills Center funding for those students.

The statements of that district reflect the portion of total Skills center operations that pertain to the operation of the branch campus alone.

Wenatchee School District No. 246
 Schedule of Long-Term Liabilities: GENERAL FUND
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Non-Voted Debt and Liabilities					
Capital Leases	0.00	0.00	0.00	0.00	
Contracts Payable	0.00	0.00	0.00	0.00	
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	
Claims & Judgements	0.00	0.00	0.00	0.00	
Compensated Absences	1,449,608.22	61,902.46	0.00	1,511,510.68	279,953.55
Long-Term Notes	0.00	0.00	0.00	0.00	
Anticipation Notes Payable	0.00	0.00	0.00	0.00	
Lines of Credit	0.00	0.00	0.00	0.00	
Other Non-Voted Debt	0.00	0.00	0.00	0.00	
	0.00				
Other Liabilities					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	
	0.00				
Total Long-Term Liabilities	1,449,608.22	61,902.46	0.00	1,511,510.68	279,953.55

The accompanying notes are an integral part of this financial statement.

Wenatchee School District No. 246
 Schedule of Long-Term Liabilities: DEBT SERVICE FUND
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
Voted Debt					
Voted Bonds	19,495,000.00	59,450,000.00	1,665,000.00	77,280,000.00	1,765,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
Non-Voted Debt					
Non-Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
Total Long-Term Liabilities	19,495,000.00	59,450,000.00	1,665,000.00	77,280,000.00	1,765,000.00

The accompanying notes are an integral part of this financial statement.

WENATCHEE SCHOOL DISTRICT #246
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ending August 31, 2014

1	2	3	4	5	6	7	8	9
Federal Agency Name	Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	From Direct Awards	From Pass Through Awards	Total	Footnote
Dept of Agriculture	WA OSPI	School Breakfast Program	10.553	04246		\$ 401,838	\$ 401,838	
	WA OSPI	Nat'l School Lunch Program - Cash Assistance	10.555	04246		\$ 1,749,577	\$ 1,749,577	
	WA OSPI	Nat'l School Lunch Program - Non Cash Asst. Food Commodities	10.555	04246		\$ 213,191	\$ 213,191	2
	WA OSPI	Child & Adult Care Food Program	10.558	04246		\$ 100,855	\$ 100,855	
	WA OSPI	Simplified Summer Feeding Program	10.559	04246		\$ 24,477	\$ 24,477	
	Office of State Treasurer	School & Roads Grants to State	10.665	04246		\$ 443,992	\$ 443,992	
		Dept of Agriculture Subtotal			\$ -	\$ 2,933,930	\$ 2,933,930	
Dept of Education	WA OSPI	Title 1, Part A, Grants to LEA's	84.010	201542, 224495		\$ 1,385,455	\$ 1,385,455	3, 4
	WA OSPI	Migrant Ed - Basic State	84.011	282020		\$ 782,606	\$ 782,606	4
	WA OSPI	Special Ed - State Grants	84.027	304689, 337686		\$ 1,343,444	\$ 1,343,444	4
	WA OSPI	Career and Technical Ed Grants to States	84.048	173019, 172828		\$ 116,882	\$ 116,882	4
	WA OSPI	Special Ed - Preschool Grants	84.173	364682		\$ 61,273	\$ 61,273	4
	WA OSPI	Ed for Homeless Children / Youth	84.196	456141		\$ 28,500	\$ 28,500	4
	WA OSPI	21st Century Community Learning Center	84.287	993681, 992108		\$ 438,436	\$ 438,436	4
	WA OSPI	English Language Acquisition	84.365	401920		\$ 272,945	\$ 272,945	
	WA OSPI	Title II Improving Teacher Quality	84.367	523381		\$ 312,794	\$ 312,794	4
		Early Awareness / Readiness	84.334	P334A080015	\$ 415,453		\$ 415,453	4
	CWU	Early Awareness / Readiness	84.334	22120600PS1		\$ 4,074	\$ 4,074	
		Dept of Education Subtotal			\$ 415,453	\$ 4,746,409	\$ 5,161,862	
	WA OSPI	Pregnancy Assistance Fund Program	93.500	179909		\$ 2,310	\$ 2,310	4
	WA DSHS	Medicaid - Medical Assistance Program	93.778	04246		\$ 40,703	\$ 40,703	
	Children's Home Society	Community Mental Health Block Grant	93.958	PIP		\$ 6,460	\$ 6,460	
		Dept Health / Human Svcs Subtotal			\$ -	\$ 49,473	\$ 49,473	
		Total Federal Awards Expended			\$ 415,453	\$ 7,729,811	\$ 8,145,264	

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1—BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the district's financial statements. The district uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2—NONCASH AWARDS

The amount of food commodities reported on the schedule is the market value of commodities distributed by the district during the current year and priced as prescribed by USDA.

NOTE 3—SCHOOLWIDE PROGRAMS

The district operates a "schoolwide program" in five elementary buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amounts were expended by the district in its schoolwide program: Title I, Part A (84.010) \$1,218,801.

NOTE 4—FEDERAL INDIRECT RATE

The district used the federal restricted rate of 3.93 percent for this program.

NOTE 5—FEDERAL INDIRECT RATE

The district used the federal unrestricted rate of 14.72 percent for this program.

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED
UNDER OMB CIRCULAR A-133**

**Wenatchee School District No. 246
Chelan County
September 1, 2013 through August 31, 2014**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Wenatchee School District No. 246.

Finding ref number: 2014-001	Finding caption: The District did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.
Name, address, and telephone of auditee contact person: Karen Walters, Director of Accounting 235 Sunset Avenue Wenatchee WA, 98801 (509) 663-8161	
Corrective action the auditee plans to take in response to the finding: <i>This finding was remedied during the previous audit February 2014 by assigning responsibility for compliance with suspension and debarment.</i>	
Anticipated date to complete the corrective action: Already completed.	

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